

## MEASURING THE IMPACT OF MICROFINANCE: OUR PERSPECTIVE

As microfinance practitioners, we have witnessed the positive impact of microfinance first-hand. For the last four decades, our work has regularly brought us face-to-face with clients--the majority of them women--in more than 40 countries across five continents.



For these clients, business loans from microfinance institutions open a world of opportunity previously closed to them by the formal financial sector. Loans enable them to buy tools and materials to start an income-generating business and/or to increase the productivity of an existing business. Increased income generated from these businesses allows them to pay school fees to educate their children, stabilize food sources, and pay for other expenses that lead to the improvement of the health and well-being of their families.

Savings accounts--equally critical financial tools--facilitate the safe accumulation of assets, while microinsurance reduces their vulnerability to risk. In aggregate, these services help the poor improve their lives and begin to work their way out of poverty.



We have also seen through our work that microfinance is particularly able to empower women, giving them access to the material, human and social resources necessary to make strategic choices in their lives: establishing or strengthening financial independence; transforming power relationships; improving stability and family prospects by directing more income toward families; and, particularly, engendering dignity and pride. This economic independence often translates into more productive communities.



The media's interpretations of several recent studies on the impact of microfinance, however, have questioned whether microfinance has made a quantitative improvement in the lives of borrowers, or has had any effect on poverty alleviation on a systemic basis. We refer specifically to research authored by Yale's Dean Karlan and Dartmouth's Jonathan Zinman, who examined microfinance in the Philippines, and that of Abhijit Banerjee, Esther Duflo and others of MIT's Jameel Poverty Action Lab, who studied microentrepreneurs in Hyderabad, India.

It is important to note two things about these studies: first, that the researchers in question have disputed some of the media's interpretations of their studies as flawed; and second, that these



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studies, conducted over a short timeframe and with small sample sizes, are part of a much larger body of research conducted over the last 20 years that have explored how microfinance affects the lives and well-being of clients.<sup>1</sup>

Numerous first-hand accounts of how microfinance can improve lives are available on our websites. A few examples, which highlight microentrepreneurs' wide range of priorities, opportunities and outcomes, include the following:

- **Delia Fontela**, who with loans from ACCION partner Mibanco in Lima, opened a store, built a three-story home housing 15 tenants, and educated her three daughters--progress sustained as a Mibanco borrower over a 24-year period. She speaks to ACCION on camera [here](#).
- **Roqia**, a FINCA Afghanistan client, secured a loan for 8,000 Afghani (US \$160), purchased a sewing machine and basic items, and opened a tailoring business in her family's home. With additional loans, she purchased a second sewing machine, and is teaching another woman to be a seamstress. She is most proud that she can provide better, more nutritious foods for her brothers and sisters. Read her story [here](#).
- **Zeinab**, a client of Al-Tadaman (which began as a project of Save the Children and is today a Grameen Foundation partner), started her business making wooden pots, crafts, and kitchen supplies with her first loan of 250 EGP (US\$46). Now, she runs her own workshop from her home, with three of her children. Zeinab's most recent loan was for 4000 EGP (US \$735). See her story [here](#).
- **Lucas Chingore**, with financial services from Opportunity International, can now farm an acre of land in Sussundenga, Mozambique. He employs four neighbors and enriches the food supply in the local market. Lucas manages his family's finances using a savings account through an Opportunity mobile bank that makes weekly stops near his home. See the video [here](#).
- **Kanti Yadav**, client of Unitus partner Mimo Finance in Dehradun, India, used her loan to buy a sewing machine and start a small tailoring business to supplement her small income selling bangles. Her tailoring work increased her income by 50 percent and, as a single mother, has helped to stabilize her housing and food source for her family. She shared her story with Unitus [here](#).
- **Vesna Stankić**, pursuing a life-long dream, opened her own hairdressing salon 10 years ago. Her business was successful and growing, but she lacked the capital to support that growth. Loans from Women's World Banking partner MI-BOSPO in Bosnia and Herzegovina allowed her to move to a larger location and hire an additional hairdresser. Read her story [here](#).

Unfortunately, it is extremely difficult for studies to *quantitatively* demonstrate the impact of microfinance. Such studies face two fundamental challenges: their ability to capture and analyze all the benefits of microfinance, and the duration of the study itself.

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<sup>1</sup> The most comprehensive summary of the impact literature related to microfinance is "Measuring the Impact of Microfinance: Taking Stock of What We Know" by Nathanael Goldberg (Grameen Foundation, 2005). Goldberg is now the director of financial inclusion for Innovations for Poverty Action. Grameen Foundation will publish an updated version of this paper in 2010.

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To obtain quantifiable data, researchers have to ask narrow questions over relatively short periods of time--14 to 18 months in one case--which does not always allow the time necessary for impact to manifest itself. And because of the growing penetration of microfinance, researchers are finding it increasingly difficult to find homogenous geographical regions that contain both clients who have access to financial services and those who have none.

While quantitative research on microfinance's impact remains in development, more focus and money is being directed to evaluation every day, and the microfinance industry fully supports continued research by qualified academics.

The real impact of microfinance lies in its ability to create inclusive financial systems and inclusive societies--societies where the individual is not shut out of what that society has to offer. We believe that microfinance specifically allows households and enterprises to benefit from financial inclusion in seven distinct, although related, ways:

1. Facilitating economic transactions: Lack of payment services mean microentrepreneurs often travel long distances and wait in line to make transactions, which is time-consuming and risky. Mobile payment services can both save time and reduce risk.
2. Managing day-to-day resources: Low-income families can use credit and savings to tap into past or future income, helping them to both take advantage of immediate opportunities or, for example, to survive the annual 'hungry season.'
3. Accessing services that improve quality of life: Financial services give families access to education, healthcare and other necessities that improve quality of life, through such tools as school fee loans, health insurance and home-improvement loans.
4. Protecting against vulnerability: Savings, credit and insurance provide sustainable and low-cost coping strategies. If a household loses a source of income, it might not have to withdraw a child from school, sell a valuable asset, or fall deeper into poverty.
5. Making productivity-enhancing investments: Clients can improve their businesses using credit or savings for investments such as sewing machines, refrigerators or farm tools.
6. Leveraging assets: The poor own assets, but without recognition by the formal sector, they cannot leverage them, as Hernando de Soto has argued. Allowing poor households, particularly the women who run them, to borrow against these assets helps them capture the existing financial value, facilitating long-term investments.
7. Building economic citizenship: Financial services foster independence. Microfinance can help clients to grow more self-confident and, with that economic citizenship, to step out and become involved in local government, garnering the respect of their communities.

We need to be reasonable and measured in our claims for what microfinance can accomplish. To thrive, microfinance requires a host of favorable conditions, including a sympathetic regulatory

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environment, political stability, mission-driven practitioners, cost-effective delivery, capital adequacy and--most of all--clients ready and able to leverage its services.

Nor can microfinance be reduced to a sound bite. A host of critical and complex issues must be consistently considered and thoughtfully debated, including consumer protection, fair lending, transparency, acceptable profits, measureable impact, and capital-market investment, to name but a few. 'Financial access' and 'building inclusive societies' are more forthright terms to describe what microfinance delivers, without risking either simplification or exaggeration.

Microfinance takes effort to understand, and patience to exercise. It is but one mechanism in the toolkit of global poverty alleviation – although one that has clearly demonstrated scale, sustainability, results, and enormous further potential.

*Signed,*  
ACCION International  
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Women's World Banking